

## KENTUCKY CASE MIX ASSESSMENT AND REIMBURSEMENT SYSTEM

### RESIDENT ASSESSMENT

#### INTRODUCTION

The Kentucky Department for Medicaid Services is implementing a new reimbursement system for price-based nursing facilities participating in the Medicaid program. These facilities include:

1. A free-standing nursing facility;
2. A hospital-based nursing facility;
3. A nursing facility with waiver;
4. A nursing facility with mental retardation specialty; and
5. A hospital providing swing bed nursing facility care.

The new price-based reimbursement methodology will consist of a reasonable standard price set for a day of service for rural and urban facilities. This should provide an incentive to providers to manage costs efficiently and economically.

The standard price includes:

1. Standardized wage rates;
2. Staffing ratios;
3. Benefits and absenteeism factors; and
4. "Other cost" percentages.

The new price-based reimbursement methodology is dependent on the specific care needs of each Medicaid and dually eligible Medicare resident in a nursing facility. The new methodology will base the resident acuity using the Minimum Data Set (MDS) 2.0 as the assessment tool. The Resource Utilization Group (RUGs) is the classification tool to place resident into different case-mix groups necessary to calculate the "case-mix score". This methodology is based on a snapshot of facility's acuity on a particular point in time.

This methodology entails a re-determination of a facility's mix of residents each quarter in order to establish a new facility specific nursing rate on a quarterly basis.

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One of the objectives of the new case-mix system is to mirror the resident assessment process used by Medicare and therefore not require the facilities to use two case-mix assessment tools to determine resident acuity. The second objective for using the MDS 2.0 and RUGS III is to improve reimbursement for facilities providing services for residents with higher care needs in order to improve access to care for these recipients.

There will be two major categories for the standard price:

1. Case-mix adjustable portion includes wages for personnel that provide or are associated with direct care and non-personal operation costs (supplies, etc.). The case-mix adjustable portion will be separated into urban and rural designations based on Metropolitan Statistical Area definitions.
2. Non case-mix adjustable portion of the standard price includes food, non-capital facility related cost, professional supports and consultation, and administration. These cost are reflected on a per diem basis and will be based on Metropolitan Statistical Area definitions.
3. Each July 1 the rate will be increased by an inflation allowance using the appropriate Data Resource Incorporated (DRI) index for inflation. The DRI will not be applied to the capital cost component.
4. Capital Cost Add-on:  
Each nursing facility will be appraised by November 30, 1999 and every five years thereafter. The appraisal contractor will use the E. H. Boeckh Co. Evaluation System for facility depreciated replacement cost. The capital cost component add-on will consist of the following limits:
  - a. Forty thousand dollars per licensed bed;
  - b. Two thousand dollars per bed for equipment;
  - c. Ten percent of depreciated replacement cost for land value;
  - d. A rate of return will be applied, equal to the 30-year Treasury bond plus a 2% risk factor, subject to a 9% floor and 12% ceiling; and
  - e. In order to determine the facility-specific per diem capital reimbursement, the department shall use the greater of actual bed days or bed days at 90%.

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For each July 1 rate setting in non-appraisal years, the department will utilize the R. S. Means Construction Index to adjust the capital cost component for inflation.

5. Renovations to nursing facilities in non-appraisal years:
  - a. For facilities that have 60 or fewer beds, re-appraisals shall be conducted if the total renovation cost is \$75,000 or more.
  - b. For facilities that have more than 60 beds, re-appraisal shall be conducted if the total renovation cost is \$150,000.
6. Facilities Protection Period
  - a. Rate Protection - Until July 1, 2002, no NF shall receive a rate under the new methodology that is less than their rate that was set on July 1, 1999, unless a facility's "resident acuity" changes. However, NFs may receive increases in rates as a result of the new methodology as the Medicaid budget allows.
  - b. Case Mix – Until July 1, 2000, no facility will receive an average case-mix weight lower than the case-mix weight used for the January 1, 1999 rate setting. After July 1, 2000 the facility shall receive the case-mix weight as calculated by RUGs III from data extracted from MDS 2.0 information.
7. Case-mix Rate Adjustments. Rates will be recomputed quarterly based on revisions in the case mix assessment classification that affects the Nursing Services component.
8. Case-mix rate adjustment will be recomputed should a provider or the department find an error.